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BUSINESS AND COOPERATIVE PROGRAMS



Business and Industry Guaranteed Loans

Loans made by conventional lenders and guaranteed by Rural Development to help maintain or establish private business and industry enterprises that create employment opportunities. Maximum loan amounts are typically \$10 million. Limited to communities of 50,000 population or less.

Rural Business Enterprise Grants

Grants made by Rural Development to public bodies, not for profit entities or Indian tribes to support the development of private business enterprises. Limited to communities of 50,000 population or less.

Rural Business Opportunity Grants

Grants made by Rural Development to public bodies, not for profit entities, or Indian tribes to provide technical assistance, training, and planning activities that improve economic conditions in rural areas. Limited to communities of 50,000 population or less.

Rural Economic Development Loans

Loans made by Rural Development to promote economic development and job creation projects through electric and telephone utilities financed by Rural Development. Maximum loan limits are \$450,000 with loan terms of 10 years.

Rural Economic Development Grants

Grants made by Rural Development to electric and telephone utilities to establish revolving loan funds for community facilities, infrastructure, and ultimately business development. Grant limits are \$200,000 which must be loaned by the cooperative to an eligible business or company.

Value-Added Producer Grants

Grants made by Rural Development to agriculture producers to primarily support the development and implantation of business plans and marketing strategies for value-added products.

Intermediary Relending Program

Loans made by Rural Development to intermediaries (public bodies, not for profit entities or Indian tribes) at 1% interest for 30 years. Intermediaries' maximum loan is \$150,000 or 75% of the project cost, whichever is less. Intermediaries establish revolving loan fund accounts and then relend to individuals or public or private organizations to finance business enterprises or community development. Limited to communities of 25,000 population or less.

Rural Cooperative Services

The program helps rural residents form new cooperatives and improve the operations of existing ones. USDA does this by providing technical assistance, conducting cooperative related research, and producing a wide variety of information products to promote public understanding of cooperatives.

BUSINESS AND INDUSTRY GUARANTEED LOAN

RD Instructions 4279-A and 4279-B

Purpose

The Business & Industry Loan Guarantee Program guarantees loans by eligible local lenders to businesses to benefit rural areas. The program's primary purpose is to create or maintain employment and improve the economic climate in rural communities. This is achieved by expanding the existing private credit structure capability to make and service quality loans to provide lasting community benefits.

Eligibility

Borrowers may include legal entities such as:



- Profit and Nonprofit
 - Corporations
 - Cooperatives
 - Partnerships
- Individuals
- Municipality, county or other political subdivision
- Federally recognized Indian tribal groups

Eligible Types of Businesses

- Manufacturing
- Retail
- Wholesale
- Service

Ineligible Types of Businesses

- Owner occupied housing
- Racetracks, Golf Courses
- Lending/investment institutions or insurance companies
- Charitable Institutions, Churches or church controlled or fraternal organizations
- Business establishments when more than 10% of annual gross revenue is from gambling activities

Eligible Loan Purposes

- Construction, renovation and development
- Purchase land and buildings
- Purchase machinery and equipment
- Pollution control and abatement
- Startup costs and working capital (not line of credit)
- Processing and marketing facilities
- Interest costs in some cases
- Feasibility studies prepared for the loan request
- Debt restructuring in some cases
- Certain fees incurred as part of loan request

Ineligible Loan Purposes

- Pay off creditor in excess of value of collateral
- Payment to owner, partner, stockholder or beneficiary of applicants who will retain equity in the business
- Projects exceeding \$1 Million and increase in direct employment of 50 or more which results in transfer of employment from one area to another or results in excess of production of goods or services in the area
- Transfer of ownership of a business (except certain cases)
- Assistance to government employees and military personnel owning 20% or more of the business
- Any illegal business activity
- Any line of credit

Transactions Not Guaranteed

- Lease payments
- Loans made by other Federal agencies
- Loans in excess of \$25 Million
- Loans involved in tax-exempt obligations

Population Limit

Loans will not be made in any city or town with a population of 50,000 or more and its immediate adjacent urbanized or urbanizing area.

Guarantee Fee/Guarantee Limit

- A guarantee fee of 2% of the guaranteed portion of the loan is required
- The maximum guarantee will be as follows:
 - 80% for loans of \$5 Million or less
 - 70% for loans in excess of \$5 Million to \$10 Million

Loan Terms

- 30 years on land, buildings and permanent fixtures (Average is 15 to 20 years)
- 15 years or useful life on machinery and equipment (Average is 5 to 10 years)
- 7 years for startup working capital loans (Average 3 to 5 years)

Interest Rates

- May be fixed or variable
- Negotiated between lender and applicant
- Normally do not exceed 1 1/2% over Wall Street Prime

Equity/Cash Required by Borrower

- Minimum tangible balance sheet equity of 20% for all startup businesses, businesses where the borrower does not or can not offer limited or full personal or corporate

guarantee, and for energy-related businesses.

- Minimum tangible balance sheet equity of 10% on existing businesses with proven track record.
- Equity will be in the form of cash or tangible earning assets. Appraisal surplus and/or subordinated debt can not be used in the calculation of the equity requirement.

Collateral Required

The lender obtains the best collateral available to secure the loan. Collateral must be adequate to protect the interest of the lender and the government once property is discounted.

Preapplication/Application

Preapplications are required in some instances. Preapplication or Application packets will be **furnished to lender after the lender has contacted a Rural Development office to discuss the proposal.**

A Preapplication will normally be required for all projects, however, an Application only (no Preapplication) may be filed when you have discussed the proposal with the lender and are satisfied that:

- There is an existing business with a proven track record
- There are no significant changes in ownership or management of the business
- There is an expansion directly related to the existing operation

Certified Lender Program (CLP)

- Objective is to expedite loan approval, making and servicing
- Must be eligible lender authorized to do business in the state in which CLP status is desired
- CLP status will not exceed 5 years, but may be renewed

INTERMEDIARY RELENDING PROGRAM

RD Instruction 4274-D

Purpose:

Finance business facilities and community development projects in rural areas - loans are made to intermediaries who establish a revolving loan fund.

Intermediaries lend these funds to ultimate recipients for business facilities or community development. As the ultimate recipient loans are repaid, collections are put back into the revolving loan fund and are used for new loans.

Eligibility Requirements

Intermediary:

- Private nonprofit corporations
- Public agencies
- Indian groups (Federally recognized)
- Cooperatives
- Intermediaries must:
 - Have legal authority to carry out the proposed loan purposes and to incur and repay the debt
 - Have a successful record of assisting rural business and industry including experience in making and servicing commercial loans
 - Provide adequate assurance of repayment
 - At least 51% of owners/members be U.S. citizens or admitted for permanent residence
 - Be unable to obtain the proposed loan elsewhere at reasonable rates and terms

Ultimate Recipients

- Private corporations
- Public organizations
- Individuals
 - At least 51% of owners/members be U.S. citizens or admitted for permanent residence
 - Be unable to obtain the proposed loan elsewhere at reasonable rates and terms

Eligible Loan Purposes

Intermediary

- Provide loans to ultimate recipients.

Ultimate Recipients

- Must be used for:
 - Community development projects
 - Establishment of new businesses and/or expansion of existing business
 - Creation of new jobs and/or save existing jobs
- Ultimate recipients must:
 - Meet the objective and purpose of the program
 - Use labor of low-income persons when possible
 - Be innovative in providing services and/or products
- Loan funds may be used for:
 - Business acquisitions, construction, conversion, enlargement, repair, modernization or development costs
 - Purchasing and development of land, easements, rights-of-way, building, facilities, leases or materials
 - Pollution control and abatement.
 - Transportation services
 - Startup operating costs and working capital
 - Interest
 - Feasibility study
 - Specified reasonable fees and charges
 - Aquaculture

Ineligible Loan Purposes

Intermediary

Loans may not be used for or made to:

- Intermediary's own administrative costs
- Purchase goods or services or render assistance in excess of what is needed to accomplish the purpose of the ultimate recipient project
- Distribution or payment to owner, partner, shareholder or beneficiaries of ultimate recipient or family when portion of equity will be retained
- Charitable and educational institutions, churches and affiliated organization, and fraternal organizations
- Government employees, military personnel or principals/employees of the intermediary who are directors, officers or have major (20% or more) ownership in ultimate recipient
- Relending in community of 25,000 or more population
- Finance more than 75% of total cost of project
- Loan to ultimate recipient plus outstanding balance of any existing IRP loan can not exceed \$150,000

Ultimate Recipient

May not use assistance for:

- Agriculture production and harvesting except as noted in procedure
- Transfer of ownership unless loan will keep business from closing, prevent loss of jobs or expand job opportunities
- Community antenna television services or facilities
- Legitimate business activity when more than 10% of annual gross revenue is derived from legalized gambling activity
- Any illegal activity
- Otherwise eligible project that is in violation of a Federal, State or local environmental protection law or regulation or enforceable land use restriction unless loan will result in curing or removing the violation

- Hotels, motels, tourist homes or convention centers
- Tourist, recreation or amusement centers

Terms

Intermediaries

- 30-year repayment
- Payments due at least annually

Ultimate Recipients

- Terms of loans to ultimate recipients are set by the intermediary as agreed to by Rural Development

Interest Rate

- ***Intermediaries*** - 1% per annum
- ***Ultimate Recipients*** – Generally between 4 to 8 percent. Intermediaries should provide lowest possible rate

Security Required

Loans to intermediaries are collateralized and may include:

- Realty, personal or intangibles capable of being mortgaged, pledged or otherwise encumbered by an intermediary or ultimate recipient in favor of Rural Development
- Lien on the IRP revolving fund
- Assignment of note(s) and security pledged by ultimate recipients

Loans to ultimate recipients

- Security requirements will be negotiated between the intermediary and the ultimate recipient and must be approved by USDA Rural Development

Application

Form 1948-1, Application for Loan (Intermediary Relending Program).

RURAL BUSINESS ENTERPRISE GRANTS

RD Instruction 1942-G

Purpose

Finance and facilitate development of private business enterprises.

Policy

Support the development of small and emerging business enterprises in rural areas.

Small and Emerging Private Business Enterprise

- Any private business which will employ 50 or fewer new employees as a result of the RBEG
- Must meet certain limitations on gross revenues

Eligibility

Public bodies and not-for-profit entities including Federally recognized Indian Tribe groups in rural areas.

Population Limit

Communities under 50,000 population. Priority is given to applications from communities of 25,000 and less.

Priority Determination

The Project Selection Criteria form (Attachment 1, Section C of Instruction 1942-G) is used to calculate the priority points. Priority points are assigned for the following criteria: population, economic conditions, experience, commitment of nonfederal funds, jobs created, etc.

Three Types of Projects Authorized

1. Infrastructure/Construction Projects

- Roads, streets, utilities, parking lots, elevated storage tanks, etc.

2. Technical Assistance

- For private business enterprise project
- Scope of work would include a budget which includes salaries, fringe benefits, consultant cost, indirect cost and other appropriate direct cost for the project
- Specify specific purpose of technical assistance

- Time frames of project
- Scope of work will be used to measure performance

3. Revolving Loan Fund

- Providing financial assistance to third parties through a loan
- Must submit plan which will include:
 - Planned projects to be financed
 - Sources of all non-RBEG funds
 - Purposes of loans
 - Number of jobs created or saved
 - Project priority and length of time involved in completion of each project
 - Information which will establish need for revolving loan fund
 - Financial statements which will demonstrate the financial ability of the applicant to administer the revolving loan fund
 - Details on applicant's experience in operating a revolving fund
 - Rates, terms and charges on loans must be reasonable and for authorized purposes

Eligible Grant Purposes

Grant funds may be used to finance and/or develop small and emerging private business enterprises in rural areas including, but not limited to, the following:

- Acquisition and development of land, easements and rights-of-way
- Construction, conversion, enlargement, repairs or modernization of buildings, plants, machinery, equipment, access streets and roads, parking areas, utilities and pollution control and abatement facilities
- Loans for startup operating costs and working capital
- Technical assistance for private business enterprises

- Reasonable fees and charges for professional services necessary for the planning and development of the project, including packaging. Services must be provided by individuals licensed in accordance with appropriate State accreditation associations
- Refinancing of debts exclusive of interest incurred by or on behalf of an association before an application for a grant when all of the following exist
 - The debts were incurred for the facility or part thereof or service to be installed or improved with the grant, and
 - Arrangements cannot be made with the creditors to extend or modify the terms of the existing debt
- Providing financial assistance to third parties through a loan
- Training, when necessary, in connection with technical assistance

Ineligible Grant Purposes

Grant funds will not be used:

- To produce agriculture products through growing, cultivation and harvesting either directly or through horizontally integrated livestock operations except for commercial nurseries, timber operations or limited agricultural production related to technical assistance projects

- To finance comprehensive area wide-type planning. This does not preclude the use of grant funds for planning for a given project
- For loans by grantees when the rates, terms and charges for those loans are not reasonable or would be for purposes not eligible under paragraph 1942.306 of Instruction 1942-G
- For programs operated by cable television systems
- To fund a part of a project which is dependent on other funding unless there is a firm commitment of the other funding to ensure completion of the project

At least 51% of the outstanding interest in the project has membership or is owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence.

Preapplication

Form SF-424.1 is used for non-construction projects and Form SF-424.2 is used when construction will be involved. A narrative describing the proposed project should accompany the Preapplication form.

RURAL BUSINESS OPPORTUNITY GRANTS

RD Instruction 4284-G

Purpose

Promote sustainable economic development in rural communities.

Policy

Assist in the economic development of rural areas.

Eligibility

Public bodies and not-for-profit entities including Federally recognized Indian Tribe groups in rural areas and cooperatives with members that are primarily rural residents and that conduct activities for the mutual benefit of the members.

Population Limit

Communities under 50,000 population.

Priority Determination

The RBOG Application Priority Score Sheet form (Exhibit B of Instruction 4284-G) is used to calculate the priority points. Priority points are assigned for the following criteria: population, economic conditions, experience, commitment of nonfederal funds, population losses, job losses, poverty, major employer/military base closures, natural disasters, etc.

Eligible Grant Purposes

- Identify and analyze business opportunities such as feasibility and marketing plan studies
- Identify, train, and provide technical assistance to rural entrepreneurs and managers
- Establish business support centers
- Conduct local community or multi-county economic development planning
- Establish training centers that will provide training to rural businesses and will utilize interactive communications technologies to develop international trade opportunities and markets
- Conduct leadership development training of existing or prospective rural entrepreneurs and managers

Ineligible Grant Purposes

Grant funds will not be used to:

- Duplicate current services or replace or substitute support previously provided
- Pay costs of preparing the application package for funding under this program
- Pay costs of the project incurred prior to the effective date of the grant
- Fund political activities
- Assist businesses that do not have at least 51% of ownership by those who are US citizens or legally admitted permanent residents
- Pay any judgment or debt owed to the United States
- Pay costs of real estate acquisition or development or building construction.
- At least 51% of the outstanding interest in the project has membership or is owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence

Application:

- Form SF-424.1
- A narrative describing the proposed project
- Applicant's organizational documents
- Proposed scope of work

RURAL ECONOMIC DEVELOPMENT LOANS

7 CFR 1703 Subpart B

Purpose

Provide 0% interest rate loans to USDA Rural Development electric and telephone utility borrowers to promote rural economic development and/or job creation projects.

Policy

- Promote projects that will result in a sustainable increase in the productivity of economic resources in rural areas thereby leading to a higher level of income for rural citizens
- Electric and telephone utility borrowers promote economic development in rural areas and job creation projects that (1) are based on sound economic and financial analyses and (2) take a long-term perspective
- Encourage economic development in rural areas and job creation projects without regard to service area
- Promote financially viable projects
- Encourage electric and telephone utility borrowers to deposit funds in Cushion-of-Credit accounts

Eligibility

- Any electric or telephone utility borrows not delinquent on any Federal debt or in bankruptcy proceedings
- Supplemental funding (20% of the amount of the 0% interest loan or grant) is required. It may be provided by the project owner in the form of equity funds, private sources, state and local government sources, other Federal Government sources, the electric or telephone utility borrower, etc.

Eligible Loan Purposes

Variety of projects which will promote rural economic development and/or job creation. Examples include:

- Business expansion and start-up
- Community development
- Incubator projects
- Medical and training projects
- Project feasibility studies

Ineligible Loan Purposes

- Project in which any director, officer, manager or stockholder or relative thereof, who has a significant ownership interest or which would present a potential for, or appearance of, a conflict of interest
- Costs incurred, and not authorized, prior to receipt of completed application
- Purchase or lease of any real property materials, equipment, or services from the borrower, stockholders, officers, managers, or close relatives without prior approval
- Refinancing any debt incurred prior to receipt of application
- For the Borrower's electric or telephone operation or for any electric or telephone purpose
- Any operation affiliated with the borrower without prior approval
- Salaries of employee or owner of the borrower or affiliates
- Community antenna television systems or facilities unless in conjunction with educational or medical entities and projects

Terms

- Maximum size of loan: \$450,000 (Changes Annually)
- Minimum size of loan: \$10,000
- Promissory note for repayment is between USDA Rural Development and the electric or telephone utility borrower
- Repayment terms are based on the nature of the project but usually will not exceed 10 years. Repayment by the recipient must equal the terms to the electric or telephone utility borrower
- Principal repayments may be deferred for two years. The repayment for an established business will normally be limited to one year.

Applications

Applications may be filed at any time, but are submitted to the National Office quarterly.

The electric or telephone utility borrower and the ultimate recipient applicant prepare the application jointly and is filed by the electric or telephone utility borrower. The application consists of:

- SF Form 424, Application for Federal Assistance
- Board Resolution
- Miscellaneous Federal forms and certifications such as:
 - AD-1047,
 - Certification
 - Regarding
 - Debarment,
 - Suspension and
 - Other
 - Responsibility
 - Matters
- Assurance statement or certification statement regarding uniform relocation assistance

- Contingent certifications and disclosures such as the Certification Regarding Lobbying

The following factors will be considered in the selection process:

- Narrative discussion of selection factors, project description and discussion of the environmental impact of the proposed project.
- Nature of project
- Job creation projections
- Long-term improvements in economic development
- Diversifying rural economy or alleviating under-employment
- Supplemental funds
- Economic conditions and job creation
- Unemployment rates
- Per Capita personal income
- Change in population
- Number of long-term jobs
- Community-based Economic Development Program
- Plan for improving the marketable skills of rural residents
- Rural location
- Support for the program – funds deposited in the cushion-of-credit account
- Demonstration project
- Probability of success
- Special economic status

RURAL ECONOMIC DEVELOPMENT GRANTS

7 CFR 1703 Subpart B

Purpose

Provide grants to USDA Rural Development electric and telephone utility borrowers to be made available to rural communities in the following manner:

- Revolving loan funds for community facilities and infrastructure
- Grant assistance in conjunction with Rural Economic Development loans. The present policy is not to make grants for this purpose

Eligibility

- Any USDA Rural Development electric or telephone utility borrower not financially distressed, delinquent on any Federal debt or in bankruptcy proceedings
- The maximum grant is \$200,000 (subject to change annually)

Eligible Grant Purposes

- Up to 100% grant to a electric or telephone utility borrower to establish a revolving loan fund. The borrower will, in turn, provide loans to foster rural economic development. The initial loan funds may be used for:
 - Community development
 - Business incubators by non-profit groups
 - Facilities and equipment for education
 - Facilities and equipment for medical care
 - Project feasibility studies/ technical assistance (only for "initial loan purposes" and in conjunction with Rural Development-approved 0% loans)

Revolving Loan Funds

- Loans made from repayments of the initial loans may be used for any rural economic development purpose in accordance with a prior agreement between the electric or telephone utility borrower and Rural Development
- The electric or telephone utility borrower will provide a Board Resolution committing to provide and maintain additional funding to the revolving loan fund in an amount of not less than 20% of the Rural Development grant
- The electric or telephone utility borrower may charge reasonable loan servicing fees
- The electric or telephone utility borrower must supply Rural Development a proposed budget demonstrating that no more than 10% of grant funds received are used to cover operating expenses of the revolving loan fund
- Funds must be loaned to project within three years of the date of Rural Development grant approval
- The revolving loan program must be administered in accordance with a rural development plan, developed by borrower and Rural Development
- Borrowers applying for grant funds must submit a scope of work to Rural Development

Rural Development Plan

- Revolving loan program must be administered in accordance with a rural development plan developed by the borrower and approved by Rural Development
- The plan must outline the following:
 - Specific objectives of the revolving loan fund program, lending parameters, maximum and minimum loan, etc
 - Documentation of borrower's coordination of lending activities with other loan entities that provide financing for rural economic development

- Eligibility criteria
- Application process and method of disposition of funds to the project owner
- Procedure for monitoring the project owner's accomplishments and reporting requirements by the project owner's management

Scope of Work

- Borrowers applying for grant must submit a scope of work to Rural Development
- The scope of work must contain the following:
 - Documented need for grant funds
 - Documented authority and ability of Borrower to administer the revolving loan fund
 - Documented ability to commit financial resources under the control of the Borrower to assist in the establishment of a rural development program
 - Documentation that Borrower has secured commitments of significant financial support for supplemental support
 - List of proposed fees and charges
 - Borrower's policy for non-Federal funds

Applications

Applications may be filed at any time, but are submitted to the National Office quarterly.

The application consists of:

- SF Form 424, Application for Federal Assistance
- Board Resolution
- Miscellaneous Federal forms and certifications such as:
 - AD-1047, Certification Regarding Debarment, Suspension and Other Responsibility Matters
 - Assurance statement of certification statement regarding uniform relocation assistance

- Contingent certifications and disclosures such as the Certification Regarding Lobbying
- Narrative discussion of selection factors, project description and discussion of the environmental impact of the proposed project

The following factors will be considered in the selection process:

- Nature of the project
- Job creation projections
- Long-term improvements in economic development
- Diversifying rural economy or alleviating under-employment
- Supplemental funds
- Economic conditions and job creation
- Unemployment rates
- Per Capita personal income
- Change in population
- Number of long-term jobs
- Community-based Economic Development Program
- Plan for improving the marketable skills of people in rural areas
- Rural location
- Support of the program - funds deposited in the cushion-of-credit account
- Demonstration project
- Probability of success

HOUSING PROGRAMS LOANS AND GRANTS

Direct Housing Loans

Loans made by Rural Development to low and very low income applicants to buy, build or repair homes--payments may be subsidized.

Guaranteed Housing Loans

Loans made by conventional lenders and guaranteed by Rural Development to moderate income applicants to buy or build homes--30 year fixed interest rate.

Home Repair Loans

1% loans made by Rural Development up to \$20,000 to very low income applicants to repair the home they now own.

Home Repair Grants

Grants made by Rural Development up to \$7,500 to very low income senior citizen applicants, 62 years of age or older, to repair the home they now own to remove safety and health hazards. Grant recipients must show they cannot afford a 1% repair loan.



Rural Rental Housing Loans

Loans made by Rural Development to individuals or organizations to construct apartments for very low to moderate income tenants--operated on a not-for-profit or a limited profit basis with subsidized rents--can include congregate housing or cooperative housing.

Site Loans

Loans made by Rural Development to public bodies or not-for-profit entities to buy and develop lots to sell to very low to moderate income housing applicants at cost.

Self-Help Housing Loans

Loans made by Rural Development to a group of housing applicants who agree to work together to build their own homes.



Technical Assistance Grants

Grants made by Rural Development to not-for-profit entities to provide the technical assistance to Self-Help Housing Loan applicants to build their own homes.

Farm Labor Housing Loans/Grants

Loans/grants made by Rural Development to public bodies, not-for-profit entities or individuals to finance rental units for domestic farm labor.

Housing Preservation Grants

Grants made by Rural Development to not-for-profit entities to operate a program which finances repair and rehabilitation activities to individual housing/rental properties for very low and low-income property owners.

Guaranteed Rural Rental Housing Loans

Loans made by approved conventional lenders, or the State Housing Finance Agency, and guaranteed by Rural Development to build apartments for moderate-income tenants.

DIRECT HOUSING LOANS

(Section 502)

Handbook 1-3550

Purpose

To provide very low and low income families with financing to build, purchase, repair or refinance homes and building sites that meet local codes and provide adequate affordable housing.

Eligible Applicants

- Be without ownership of decent, safe and sanitary housing
- Be unable to obtain a loan from other conventional lending sources on terms they can afford
- Have sufficient income for loan repayment, taxes, insurance, living expense and other existing debts
- Possess the legal capacity to incur debt
- Be a very low or low income applicant (80% or less of County Median Income or less)
- Have an acceptable credit history

Loan Purposes

Loan funds may be used to purchase a site and build a new home. Certified building plans, specifications and lot survey must be provided. An existing home which meets building standards or can be brought up to code with loan funds is eligible for the program.

Funds may be used to modernize or repair a home already owned by an applicant. Under certain conditions, funds may be used to refinance debts on a home.

Loan Terms

Loans may be made for up to 100% of appraised Market Value plus some of the closing costs. The loan will be for a 33 year term and under certain conditions it may be extended to 38 years. The interest rate changes based on the cost of funds to the Government, but the note rate stays the same

after the loan is closed. The full note payment may be reduced on an annual basis by Payment Assistance, which is based on household annual adjusted income.

Location and Type of Home

The home must be located in a rural community with less than 20,000 population, on a farm or in open country not closely associated with an urban area. It must be located on a site which has a sewage disposal and water system that is approved by the Health Department. Adequate streets and other services are approved on a site by site basis.



The modest home financed must not exceed the established area loan limit for the county

in which the property is located. The home cannot have an in-ground swimming pool, but otherwise is not limited in amenities.

Other Features

These loans may be made in partnership with a conventional loan. With these leveraged loans, the loan will be secured by a second Deed of Trust with the conventional lender having the first lien. The interest rate charged to the borrower for the Rural Development loan will be a reduced rate based on the income of the borrower.

Applications are filed at the area office serving the area where the home to be financed is located. If you are unable to locate the area office, you may call the State Office at 615-783-1300 for further information.

GUARANTEED RURAL HOUSING LOANS

(Section 502)

RD Instruction 1980-D

Purpose

To provide low and moderate income applicants with the financial assistance to obtain adequate housing in rural communities with Rural Development guaranteeing sound loans that could not otherwise be made without the guarantee.

Eligible Applicants

- Must have adequate and dependable income
- Must have a credit history that indicates a reasonable willingness to meet obligations
- Must have repayment ability based on the following ratios:
 - Monthly obligation for mortgage payments, real estate taxes and insurance (PITI) divided by gross monthly income cannot exceed 29%
 - Total monthly debt payments divided by gross monthly income cannot exceed 41%
- Must be a U.S. citizen or be legally admitted for permanent residence
- Must have an adjusted annual family income that does not exceed the moderate income limit of the county

Loan Purposes

Guaranteed loans may be made on new homes that have been inspected using code certified plans and specifications. Existing homes that are structurally sound and have their plumbing, heating, electrical and insulation certified may be financed. A termite-free report must be provided. If the home is on an individual water and sewage disposal system, it must be approved according to the requirements of the Health Department. Funds may be included in the loan for essential repairs.

Loan Terms :

The Lender sets the interest rate for an amount not to exceed the Fannie Mae 30 year fixed rate plus .6 of 1%. The loan may be for up to 100% of market value. Rural Development will receive a one time fee to guarantee the loan for the original lender. All loans must be secured by a first deed of trust on a residential property.

Location and Loan Amounts

The homes must be located in a rural community with less than 20,000 population or in open country not closely associated



with an urban area. Maps outlining rural areas may be obtained from any Rural Development office or our Web Site under What We Do – Rural Housing Ineligibility. The home may include typical amenities, except in-ground swimming pools.

Where To Apply

Rural Development approved conventional lenders originate these loans, process applications and submit the loans to the area Rural Development office's for a commitment. We have four area offices in the state that process Guaranteed Loans:

Covington: (901) 475-3350

Jackson: (731) 668-2091

Nashville (615) 783-1359

Knoxville (865) 523-3338

If you need a list of approved lenders to contact, you should visit or call your area Rural Development office for more information.

HOME REPAIR LOANS AND GRANTS

(Section 504)

Handbook 1-3550

Purpose

To provide loan and grant funds to be used to pay for needed repairs and improvements to dwellings of eligible very low income families. Grant funds must be used to remove health and safety hazards.

Eligible Applicants

- Be a citizen or non-citizen that has been legally admitted for permanent residence
- Possess legal capacity to incur debt
- Have an acceptable credit history
- Be unable to get credit elsewhere and not have own resources available
- Very-Low income (50% of County Median Income or less)
- Must have sufficient and dependable income for loan repayment
- For grant only:
 - Be 62 years or older
 - Lack repayment ability for a loan amortized at a 1% interest rate for 20 years for the cost of needed repairs

Loan and Grant Uses

Repair loan and grants may be used to remove health and safety hazards such as repairing roofs, heating, electrical and plumbing systems, water and waste disposal, installing screens, windows, insulation and other steps to make the home safe.



Home improvement loans may include similar purposes, but may also be used to modernize and bring a home up to standards, make changes for convenience, add a room, remodeling and overall making improvements to the home. The home must be owner-occupied.

Loan and Grant Restrictions

The outstanding loan amount cannot exceed \$20,000. The lifetime grant assistance may not exceed \$7,500.

Loan and grant funds may not be used to construct a new dwelling, repair a home that will continue to be a major hazard, move a mobile home, make off-site improvements or to refinance existing debts.

Grants may not be used to make changes to the dwelling for cosmetic or convenience purposes, unless directly related to removal of health and safety hazards.

Security and Terms of Loans and Grants

Loans of \$7,500 or more will be secured by a deed of trust. Loans of less than \$7,500 may be secured by a note-only.

Grant Agreements must be signed by all co-owners. Grant Agreements must be repaid in full if property is sold within 3 years from the date of the grant agreement.

Loan terms are not to exceed 20 years at 1% interest. Examples of payments are:

- \$1,000 loan at 1% for 20 years - \$5.00 monthly payment
- \$5,000 loan at 1% for 20 years - \$23.00 monthly payment
- \$15,000 loan at 1% for 20 years - \$69.00 monthly payment

SELF-HELP TECHNICAL ASSISTANCE GRANTS

RD Instruction 1944-I

Purpose

To provide grant funds to eligible organizations who wish to operate and administer a program to assist needed and qualified families to construct houses in rural areas.

Eligible Applicant

Be an organization which has the financial, legal, administrative, and capacity to administer the grant

- Can be a State, political subdivision, or public nonprofit corporation or,
- Private nonprofit corporation owned and controlled by private persons or interests and organized and operated for purposes other than making gains or profits for the corporation

Applications

Preapplications can be submitted to any of our nine area offices throughout the state.

Funding

An allocation for this program is maintained by the National Office. Eligible applicants will be submitted to National Office for funding.

Terms

Grants are normally made on a two-year basis. Construction is generally in a group fashion, and consists of 8-10 families who agree to mutually provide labor to each other throughout the building period until all houses in the group are completed. Estimate a 6 to 8 month construction time frame for each group of 8 to 10 families. Three 8 month building cycles would complete the 24 month grant period.

Use of Grant Funds

- Payment of salaries of personnel, employee benefits, etc.
- Payment of necessary and reasonable office expenses such as utilities, equipment rental, office rental, supplies, etc.

- Purchase, lease, or maintenance of power or specialty tools (power saw, electric drill, saber saw, ladders, etc.). The participating families are expected to provide their own hand tools such as hammers and handsaws
- Payment of liability insurance and audit costs
- Payment of reasonable fees for training of grantee personnel
- Payment of legal costs, accountant fees to set up an accounting system

Loan Limitations

The self-help must be less costly than having a contractor/builder do the job. The maximum grant amounts will be limited to:

- An average technical assistance (TA) cost per unit should be no more than 15% of the cost value of modest homes built in the area; or
- An average TA cost per unit that does not exceed the difference between the value of modest homes in the area and average mortgage of the participating families minus \$1,000; or
- A TA per unit cost that does not exceed an amount established by the State Director, or
- A negotiated amount for repair and rehabilitation type proposals

General Comments

The self-help participant must, by agreement, contribute a significant amount of labor in order that house costs will be reduced and made more affordable. Family selected phases should be those requiring semi-skills of the workers and can be performed with on-the-job supervision by the grant program construction supervisor. Families are not expected to perform those construction phases requiring licensed workers. Participants should be prepared to contribute approximately 30 hours of work per week per group member.

RURAL HOUSING SITE LOANS

RD Instruction 444.8

Purpose

Assist public or private nonprofit organizations with the purchase and development of adequate sites, including the construction of essential access roads, streets, utility lines, and necessary equipment which will become a permanent part of the development.

Eligible Applicants

The applicant must be a private or public nonprofit organization.

Loan Limitations

\$100,000 or total development costs or value of property as improved, whichever is less. Can be a larger loan if prior authorization is obtained from the National Office.

Application

The application will be in the form of a letter to the Local or Area Office which would include:

- Financial statement
- General description of the project
- Estimated cost and amount of loan needed
- Evidence of inability to obtain credit elsewhere
- Evidence of need for the proposed sites in the locality by low- and moderate-income families
- Evidence of any state, county, or local planning, zoning or other ordinance imposing additional restrictions upon the proposed site

Terms

For Section 523 – Self Help Site Loans – Interest rate is 3%. For Section 524 – Low and Moderate Site Loans – Interest rate is the same as the current interest rate in effect for the Section 502 loan program. Maturity date will be two years from the date the loan is made. National Office may authorize an extension of the maturity date.

Security

Each loan will be secured by a mortgage on the property purchased or improved with the loan and a security interest in the funds held by the corporation in trust for the Government.

Funding

Allocations are maintained at the National Office. Applicants must get prior National Office approval before proceeding with the final request.

Eligible Loan Purposes

- Access roads, streets, utility lines
- Purchase of land
- Public water and waste disposal facilities if they are not available and cannot reasonably be provided on a community basis with other financing, including Rural Development Water and Waste Disposal association loan
- Engineering fees, legal fees, and closing costs
- Actual cash costs of incidental administrative expenses such as postage, telephone, advertising, etc.
- Needed landscaping, planting, seeding, or sodding, or other necessary facilities related to buildings such as walks, parking areas, and driveways

Ineligible Loan Purposes

- Purchase more land than immediate need for locality (generally, how many lots can be sold within 2 years)
- Payment of commissions or refinancing debts
- Purchase of land from a member of applicant-organization
- To develop lots which will be excessive in costs

Program Restrictions

The sites developed with a site loan (Sec. 524) must be for housing low- and moderate-income families and may be sold to families, nonprofit organizations, public agencies, and cooperatives eligible for assistance under any Section of Title V of the Housing Act of 1949. This could be a private lender, HUD, individuals who are eligible for a VA guaranteed loan, state or local public agencies, such as a housing authority, as long as they meet the income guidelines.

RURAL RENTAL HOUSING PROGRAM

(Section 515)

7-CFR-3560

Purpose

Provide eligible tenants economically designed and constructed rental housing and related facilities suited to their living requirements in rural areas (communities with less than 20,000 population).



Eligible Occupants

Families, individuals, senior citizens (age 62 or over) and persons with a disability with very low, low, and low to moderate incomes.

Eligible Applicants

Nonprofit organizations, Limited Profit borrowers (individual, partnerships [general and limited], and corporations), consumer cooperative or public body. Limited Profit borrowers must agree to limit their return on their initial investment to 8%. Applicants must have ability and experience to operate and manage the development successfully.

Terms

30 year loan with 50 year amortization at current lending rate.

Loan Limitations

- Maximum loan for nonprofits, consumer cooperatives, or State or local public agencies, will be limited to the total development cost or appraised value, whichever is less.
- For Limited Profit applicants receiving Low-Income Housing Tax Credits, the amount of the loan will be limited to no more than 95% of the development cost or appraised value, whichever is less.

- For all other applicants not receiving any benefits from Low-Income Housing Tax Credits, the loan amount will be limited to no more than 97 percent of the development cost or appraised value, whichever is less.

Loan Purposes

- New construction
- Purchase and rehabilitate existing buildings only when the loan for such rehabilitation does not exceed by 5% the loan for new construction in the same area
- Purchase and improve the necessary land on which the housing will be located
- Develop other related facilities in connection with the housing such as community room, recreation area or office

Applications

Dates governing the invitation and review of preapplications will be published in the Federal Register annually. Application packets can be picked up at any USDA Rural Development office throughout the state. They are processed by one of our nine area offices located throughout the state.

Subsidies

Interest credit and rental assistance.

- **INTEREST CREDIT** - Interest rate reduction to 1% . Owner will have two rents (basic and note). Basic rents are rents needed to pay operating and maintenance expenses plus loan payment at 1% for 50 years. Note rate rents are rents needed to pay operating and maintenance expenses plus loan payment at note rate interest for 50 years. Tenants pay based on 30% of their adjusted household income within the basic and note rate rent schedule.

- RENTAL ASSISTANCE - This is a deeper subsidy which pays the difference between 30% of the tenant's adjusted income and basic rent. This is a project based subsidy. Currently we have 6,553 units of rental assistance throughout the state.
- OTHER SUBSIDIES - Existing Section 8 assistance is available through the state housing agencies. This is a tenant based subsidy which goes with the tenant wherever they live.

Servicing Issues

We currently have over 385 borrowers totaling 13,164 rental units. Borrowers are required to prepare annual financial reports and budgets for review and approval by Rural Development. Properties are visited on an annual basis and every three years, a detailed supervisory visit and property inspection is made by Rural Development to assure compliance with the borrower's loan agreement or resolution, Promissory Note, Deed of Trust, and our regulations. Borrowers with special needs or problems may need visits at more frequent intervals.

Owners are required to verify and certify tenant's income and assets on an annual basis. They must also submit monthly payments with a project worksheet showing overage charged and rental assistance needs if applicable.

Special Servicing Options Available For Certain Situations

- SPECIAL NOTE RENTS (SNR) - reduced note rents when area private market rents are less than our note rate rent and vacancies result
- TRANSFERS - Sell property to new owner agreeing to abide by restrictions of the properties loan agreement or resolution and legal documents
- SUBORDINATIONS
- CONSOLIDATIONS
- CONSENT TO JUNIOR LIENS
- WORKOUT AGREEMENTS
- REAMORTIZATIONS

Restrictive Use Provisions

- BORROWERS WITH LOANS PRIOR TO 12-21-79 - Do not have any restrictive use provisions in their legal documents. They may prepay their loans only under certain conditions. Rural Development may make equity loan offer along with other incentives to not prepay. Rural Development must review request and determine what conditions, if any, must happen in order to prepay.
- BORROWERS WITH LOANS BETWEEN 12-21-79 AND 12-15-89 - These borrowers have signed a 20 year restrictive use provision in their legal documents. They can prepay only under certain conditions. Rural Development may make incentive offer. Rural Development must review and determine what conditions apply if prepayment is allowed.

Instructions for Loan Servicing

7-CFR-3560 & 1951-K

GUARANTEED RURAL RENTAL HOUSING PROGRAM

(Section 538)

7-CFR-3565

Purpose

To increase the supply of affordable moderate income rural rental housing, through the use of loan guarantees that encourage partnerships between the Housing Service, private lenders and public agencies.

Eligible Borrowers

- Must intend to provide and maintain rural rental housing
- Must have legal and financial capacity to meet all of the obligations of the loan and ability and experience to construct or rehabilitate multi-family housing that met the requirements of the agency, the lender, and the loan agreement
- Must have ability and experience to meet the property management requirements of the agency, lender, and loan agreement
- Ownership entities must be a valid entity in good standing under the laws of the jurisdiction in which it is organized
- Eligible borrowers must be US Citizens or US Owned Corporations, or organizations in which the principals are US Citizens or permanent legal residents, and include, but may not be limited to:
 - Individuals
 - Corporations
 - State or local public agencies
 - Partnerships
 - Cooperative housing
 - Trusts
 - Indian tribes

Eligible Lenders

Those approved and considered eligible by the Federal National Mortgage Association, the Federal Home Loan Mortgage Corp., the

Federal Home Loan Bank members, or the Department of Housing and Urban Development qualify as an eligible lender if they are currently active with the multi-family housing program. State Housing Finance Agencies are also considered eligible. Other lenders have the opportunity to enter into a correspondent bank relationship with approved lenders in order to participate in the program.

Terms

Repayment term cannot exceed 40 years or the remaining economic life of the project, whichever is less. The interest rate cannot exceed the maximum rate specified in the Notice of Funding Availability (NOFA). The rate must be fixed for the life of the loan.

Loan Purposes

- New construction and/or purchase and rehabilitation of buildings. Purchase and improve land on which the housing will be located
- Development of related facilities (community space, recreation, storage or maintenance structures), except high cost facilities such as swimming pools and exercise clubs
- Construction of on-site management or maintenance offices and living quarters for operating personnel for the property being financed
- Purchase and install appliances and develop the surrounding grounds, including parking, signs, landscaping and fencing
- Costs for feasibility determination, loan application fees, appraisals, environmental documentation, professional fees or other fees determined by the agency to be necessary to the development of the project

- Construction interest accrued on the construction loan.
- Relocation Assistance in the case of rehabilitation projects, and developers' fees

Interest Credit

For at least 20% of the loans made during each fiscal year, the agency will provide assistance in the form of interest credit, to the extent necessary to reduce the agreed-upon rate of interest to the Applicable Federal Rate (AFR). The agency will select projects to receive interest credits based upon priorities established by the agency.

Location and Loan Amounts

Loans must be located in rural communities with less than 20,000 population. Maps outlining rural areas may be obtained from any Rural Development office located in a county with a city over 20,000 population. Loans to non-profit organizations or agencies or bodies of state, local or tribal government will be limited to 97% of the development cost or the lenders determination of value not to exceed the appraised value of the housing and facilities. All other entities will be limited to 90% of the development cost or appraised value.

Restrictions

Rent for any individual unit, including utilities, must not exceed an amount equal to 30% of 115% of area median income, adjusted for family size. Also, on an annual basis, the average rent for the project must not exceed 30% of 100% of area median income, adjusted for family size.

Guarantee Amount and Fee

The initial fee will be equal to 1% of the principal amount of the loan. An application fee of \$2,500 will be collected when a formal application is filed. An annual fee of at least .5% of the outstanding principal amount will be charged each year that the guarantee is in effect. The maximum guarantee for a permanent loan will be 90% of the unpaid principal and interest of the loan.

Application Process

Notice of Funding Availability will be announced annually in the Federal Register giving instructions on when and where applications will be accepted.

Preservation

Loans must remain affordable to eligible households for the term of the loan, unless the project is determined to be no longer needed or the lender acquires title to the property through foreclosure or deed-in-lieu of foreclosure. This requirement is statutory.

FARM LABOR HOUSING LOANS AND GRANTS

7-CFR-3560

Purpose

To make loans to provide decent, safe, and sanitary housing for domestic farm labor in areas where needed and provide grants where there is a pressing need for such facilities in an area for farm laborers and there is reasonable doubt that housing can be provided without the grant assistance.

Applicants

Off-Farm Labor Housing Loans and Grants are available to state or local governments, non-profit organizations, and limited partnerships in which the general partner is a non-profit entity. Such partnerships are eligible for low income housing tax credits which may be used in conjunction with USDA's Farm Labor Housing Program.

Off-Farm housing is open to eligible farm workers from any farming operation, both migrant and year-round and their families. Rural Development encourages locating off-farm housing close to important facilities such as child care or recreational facilities. USDA typically provides a rental assistance subsidy to tenants making the rent affordable for them. On-Farm Labor Housing loans are available to Farm Owner Family Farm Partnership, Corporation, or an association of farmers engaged in agricultural farming operations. The On-Farm housing is available only to farm workers who work for the farmer or rancher borrowing the funds. In most cases, rent cannot be charged.

TN presently has 19 On-Farm LH borrowers with a total of 21 units.

Applications for Off-Farm Labor Housing loans & grants are announced annually through a Notice of Funding Availability (NOFA) in the Federal Register.

Applications for On-Farm Labor Housing are accepted throughout the year. On-Farm LH funds are allocated on first-come first-served basis and maintained by the National Office.

Eligibility Requirements

To be eligible for a loan the applicant must meet the following:

- Be unable to provide needed housing from their own resources and unable to obtain credit elsewhere

- Have sufficient initial operating capital to pay costs such as property and liability insurance premiums, fidelity bond coverage, utility hookup deposits, maintenance equipment, printing other lease forms, and other initial expenses. Can include up to 2% of the development costs for the initial operating capital for nonprofit organizations and State or local public agencies
- Own the housing and related land or become the owner when the loan is closed
- Refer to 7-CFR-3560 for more specific requirements

In addition to the above, to be eligible for a labor housing grant the applicant must meet the following:

- Must be broad-based nonprofit or nonprofit organization of farm workers only.

Rates and Terms

Loan will be amortized for 33 years at 1% interest rate.

Loan Purposes

- Build, buy, improve or repair housing
- Purchase and improve the necessary land on which the housing will be located
- Develop and install water supply, sewage disposal, streets, storm water retention facilities, and heat and light systems necessary
- Construct other related facilities in connection with the housing such as maintenance workshop, storage facilities, recreation center, central cooking and dining, laundry, etc.
- Construct office and living quarters for the resident manager and other operating personnel
- Purchase and install ranges, refrigerators, drapes, washers and dryers
- Provide landscaping, foundation planting, seeding or sodding of lawns, and necessary facilities related to

building such as walks, yards, fences, parking areas and driveways

- Provide funds to enable a nonprofit group or public body to be reimbursed for technical assistance

Grant Requirements

A grant may be made to an eligible applicant when the following requirements are met:

- Applicant contributes at least 10% of the total development cost from their own resources
- Davis-Bacon Act applies to construction if a grant is involved

HOUSING PRESERVATION GRANT SYSTEM

RD Instruction 1944-N

Purpose

To provide funds to eligible applicants to operate a program which finances repair and rehabilitation activities to individual housing, rental properties for very low- and low-income persons in rural communities.

Applicants

Must be an organization authorized to administer HPG funds:

- State, commonwealth, trust territory, other political subdivision, or public nonprofit corporation authorized to receive and administer HPG funds
- American Indian tribe, band, group, or nation which is considered an eligible recipient under the Indian Self-Determination and Education Assistance Act or under the State and Local Fiscal Assistance Act of 1972
- Private nonprofit corporation that is owned and controlled by private persons or interest for purposes other than making gains or profits for the corporation, is precluded from distributing any gains or profits to its members
- Consortium of units of government and/or private nonprofit organizations which is otherwise eligible to receive and administer HPG funds

Preapplication Submission Deadline

Dates governing the invitation and review of HPG preapplications will be published in the Federal Register. Applicants then have 90 days from publication to file a preapplication.

Project Selection Criteria

The Project Selection Criteria form (Exhibit D) is used to determine eligibility and priority points. Priority points are assigned for the following criteria: percentage of very-low income persons proposed to be assisted, population, percentage of funds which will be used for administrative purposes, component for alleviating overcrowding, leveraged funds, and administrative capacity to carry out the objectives of the grant.

Term of Grant

The objectives of the grant shall normally be accomplished between 1 to 2 years.

Eligible Grant Purposes

- Installation and/or repair of sanitary water and waste disposal systems
- Energy conservation measures such as insulation and combination screen-storm windows and doors
- Repair or replacement of the heating system
- Electrical wiring
- Repair of, or provision for, structural supports and foundations
- Repair or replacement of the roof
- Replacement of severely deteriorated siding, porches, or stoops
- Alterations of the unit's interior or exterior to provide greater accessibility for any handicapped person
- Additions to any dwelling only when it is clearly necessary to alleviate overcrowding or to remove health hazards to the occupants
- Repairs to manufactured housing provided the recipient owns the home and the site and has occupied that home on that site for least 1 year prior to receiving assistance and the manufactured housing is on a permanent foundation or will be put on a permanent foundation with HPG funds [(1944.664 (c) (10))]
- Up to 20% of the HPG funds may be used for administrative purposes (salaries, office supplies, utilities, telephone services and equipment, audit, workers' compensation, etc.)

Reporting Requirements & Compliance

The Grantee is required to submit a Financial Status Report (SF-269) and a performance report (Exhibit E-1) quarterly which should relate to the activities accomplished during the report period. Rural Development will be responsible for reviewing the quarterly reports and final reports to determine if the grantee is complying with the Grant Agreement, Statement of Activities and the budget, and that the HPG project activity is completed and approved. At the close of the grant, the Grantee will be required to provide a final audit.

COMMUNITY PROGRAMS LOANS AND GRANTS

Water and Waste Disposal Loan/Grants

Loans/Grants made by Rural Development to public bodies, not for profit entities or Indian tribes to finance needed public water and waste facilities. Limited to rural areas. Rural Areas are located outside cities or towns of over 10,000 population.



Emergency Community Water Assistance Grants

Grants made by Rural Development to public bodies, not for profit entities or Indian tribes, to finance a water system that has significant decline in quantity or quality of water due to a natural disaster. Limited to rural areas. Rural areas are located outside cities or towns of over 10,000 population.

Solid Waste Management Grants

Grants made by Rural Development to public bodies, not for profit entities or Indian tribes to reduce/eliminate pollution of water resources or improve planning and management of solid waste sites. Grants are limited to rural areas. Rural areas are any areas not in a city or town with a population in excess of 10,000 inhabitants.

Technical Assistance & Training Grants

The objectives of the Technical Assistance & Training Grant Program are to: Identify and evaluate solutions to water and waste disposal problems in rural areas. Assist applicants in preparing applications for water and waste grants made in accordance with part 1780. To improve operation and maintenance of existing water and waste disposal facilities in rural areas.

Distance Learning/Telemedicine

Loans, grants and combinations of loan and grant can be made by Rural Development to non-profits and organizations involved in education or healthcare services. The Distance Learning /Telemedicine (DLT) loan and grant program is designed to help meet the challenges through the use of advanced telecommunications technologies. These technologies can create economic and quality-of-life opportunities.

Community Facility Grants

Grants made by Rural Development to public bodies, not for profit entities or Indian tribes, to finance essential public use facilities and equipment (health, fire nutrition, libraries, etc.) Grants will not be made in or to a city or town with a population in excess of 20,000.

COMMUNITY FACILITY DIRECT LOANS

RD Instruction 1942-A

Purpose

Provide financing to improve, or develop essential community facilities in rural areas (Fire and rescue are covered in RD Instruction 1942-C).

An essential community facility is a public improvement needed for beneficial and orderly development of a rural community and is operated on a nonprofit basis.

Eligibility

- Public bodies such as municipalities (cities, towns and villages), counties and special purpose districts (such as nursing home districts)
- Nonprofit corporations
- Federally recognized Indian tribes



Population Limit

Loans will not be made in or to a city or town with a population in excess of 20,000 population. Priority will be given to communities of less than 5,000 population.

Test for Credit

Applicant must certify, and Rural Development must concur, that it is unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms.

Eligible Loan Purposes

- Construct, enlarge, extend or otherwise improve *essential community facilities* including, but not limited to:
 - Health services
 - Community, social or cultural services

- Transportation facilities such as streets, roads and bridges
- Hydroelectric generating facilities and related connecting systems and appurtenances, when not eligible for electric financing
- Supplemental and supporting structures for other rural electrification or telephone systems when not eligible for electric financing
- Natural gas distribution system
- Industrial park sites (only land acquisition and site preparation)
- **Otherwise improve includes, but is not limited to, the following:**
- Purchase of major equipment which will provide an essential service to rural residents
- Purchase of existing facilities to improve or prevent a loss of service
- **Funds may also be used to:**
- Construct or relocate public buildings, roads, bridges, fences or utilities
- Relocate private buildings, roads, bridges, fences or utilities
- Pay for the following expenses:
 - Reasonable fees and costs
 - Interest
 - Costs of acquiring interest in land and rights
 - Purchasing or renting equipment
 - Initial operating expenses
- **Refinancing debts when all of the following exist:**
 - Debts being refinanced are secondary part of loan (less than 50%)
 - Debts being refinanced were incurred for facility or service being currently financed

- Arrangements cannot be made with present creditors to extend or modify terms of the existing debts

Ineligible Loan Purposes

- Facilities which are not modest in size, design and cost
- Loan finder's fees
- On-site utility systems or business and industrial buildings in connection with industrial parks
- Facilities to be used primarily for recreation purposes
- Community antenna television services or facilities
- Electric generation or transmission facilities or telephone systems except in limited circumstances

Loan Terms

- Loan will not exceed the useful life of the facility
- Loan will not exceed 40 years.
- Principal may be deferred the first two years when necessary.

Interest Rates

There are three interest rate levels: poverty, intermediate, and market. The type of rate applicable to a project is dependent on the Median Household Income of the service area.

The poverty rate is appropriate if the median household income of the service area is below the poverty* line or is below 80% of the state nonmetropolitan median household income and the loan is to upgrade existing facilities or construct new facilities required to meet applicable health or sanitary standards.

The intermediate rate applies to loans that do not meet the requirements for the poverty line rate or for which the median household income in the service area is below the poverty line or not more than 100% of the nonmetropolitan median household income of the state.

The market rate applies to all loans that do not qualify for the poverty or intermediate rates.

Currently, the poverty rate is 4.5%. The market rate is adjusted quarterly based on a bond buyer index. The intermediate rate is midway between the poverty and market rates.

Security

Loan will be secured by the best security position practicable to protect the interest of the Government during the repayment of the loan. In Tennessee, loans to public bodies are normally secured by revenue bonds. Loans to nonprofit corporations are secured by a note and real estate deed of trust. Assignments are usually taken on accounts, contract rights, general intangibles, equipment and fixtures.

Feasibility Requirements

- RD Instruction 1942-A [1942.17(h)] apply
- These instructions do allow some flexibility depending on the size and nature of the project

Preapplication

- Standard Form 424.2, Preapplication
- State Intergovernmental Review
- Applicant's certification on other credit
- Supporting documentation
 - Current financial statements
 - Audits
 - Organizational documents (if nonprofit)
 - Certificate of Incorporation
 - Articles of Incorporation
 - Bylaws
 - Existing debt instruments
- Project write-up and information on the applicant

*The poverty line amount is updated annually. As of May 1, 2004 the poverty line is \$18,850.

COMMUNITY FACILITY GUARANTEED LOANS

RD Instruction 3575-A

Purpose

Provide financing to improve or develop essential community facilities in rural areas.

Eligibility

Not-for-profit corporations, public bodies or Federally recognized Indian tribal groups.

- ***Not-for-Profit Corporations*** - These are the only type of entities that we have made guaranteed loans to in Tennessee. The entity must have significant ties to the local community such as control by a public body or broadly based ownership and controlled by members of the local community.
- ***Public Bodies*** (cities, counties, districts, etc.) Public bodies normally do not pursue guaranteed loans in Tennessee because Rural Development can not guarantee totally tax-exempt bonds.

Legal Authority and Responsibility

The borrower shall be responsible for operating, maintaining and managing the facility and providing for its continued availability and use at reasonable terms and rates even though the facility may be operated, maintained or managed by a third party under contract, management agreement or written lease.

Eligible Loan Purposes

- Construct, enlarge, extend or otherwise improve ***essential community facilities*** (any community facility that is essential to the beneficial and orderly development of that community) operated on a nonprofit basis such as:
 - Fire, rescue and public safety
 - Health services
 - Community, social or cultural services
 - Transportation facilities such as streets, roads, bridges

- Hydroelectric generating facilities (when not eligible for Electric financing)
- Supplemental and supporting structures for other rural electrification or telephone systems when not eligible for Electric financing
- Natural gas distribution systems
- Industrial park sites (only land acquisition and site preparation)
- Facilities used primarily for recreation
- ***Otherwise improve*** includes, but is not limited, to the following:
 - Purchase of major equipment which will provide an essential service to rural residents
 - Purchase of existing facilities to improve or prevent a loss of service
 - Payment of tap fees and other utility connection charges as provided in utility purchase contracts
- Funds also may be used:
 - Construct or relocate public buildings, roads, bridges, fences or utilities
 - Relocate private buildings, roads, bridges, fences or utilities
 - Pay the following expenses
 - Reasonable fees and costs
 - Interest
 - Costs of acquiring interest in land and rights
 - Purchasing or renting equipment
 - Initial operating expenses
- Refinancing debts when all of the following exist:
 - Debts being refinanced are secondary part of loan (less than 50%)
 - Debts being refinanced were incurred for facility or service being currently financed

- Arrangements cannot be made with present creditors to extend or modify terms of the existing debts
- Pay obligations for construction incurred before issuance of the Conditional Commitment (only in limited instances)

Ineligible Loan Purposes

- On-site utility systems of business or industrial buildings in industrial park
- Community antenna television services or facilities
- Electric generation or transmission facilities or telephone system in some instances
- Facilities not modest in size, design and cost
- Finder's and packager's fees
- New combined sanitary and storm water sewer facilities

Population Limit

Loans will not be made to any city or town with a population in excess of 20,000 nor will a facility be located in any city or town with a population in excess of 20,000.

Test for Credit

Both borrower and lender must certify credit would be unavailable to the borrower without the guarantee.

Guarantee Fee/Guarantee Limit

- A guarantee fee of 1% of the guaranteed portion of the loan is required
- The loan will not exceed 90%

Lender's Exposure

Lender must retain 5% of the total loan amount and it must be of the unguaranteed portion and can not be participated.

Interest Rates

- Fixed or variable rate allowed. A variable rate must be tied to a base rate published periodically in a recognized

national or regional financial publication and specifically agreed to by the lender, borrower and Rural Development

Loan Terms

- Loan will not exceed 40 years
- Loan will not exceed useful life of facility

Rural Development will not guarantee any note in which the loan documents provide for payment of interest upon interest

Feasibility Requirements

- These instructions do allow some flexibility depending on the size and nature of the project.

What is Needed From Lender for a Preapplication?

- Standard Form 424.2, Preapplication
- State Intergovernmental Review
- Applicant's certification on other credit
- Lender's certification they would not make the loan without the guarantee
- Lender's proposed loan terms
- Supporting documentation
 - Current financial statements
 - Audits
- Organizational documents
 - Certificate of Incorporation
 - Articles of Incorporation
 - Bylaws
- Existing debt instruments
- Project write-up, information on the applicant and the lender's recommendation
- Form 3575-1

COMMUNITY FACILITY GRANTS

RD Instruction 3570-B

Purpose

Assist in development of essential Community Facilities in rural areas. An essential Community Facility is a public improvement needed for beneficial and orderly development of a rural community and is operated on a non-profit basis.

Eligibility

- Public bodies such as a municipality, county and special purpose districts
- Non-profit corporation
- Federally recognized Indian Tribe

Population Limit

Grants will not be made in or to a city or town with a population in excess of 20,000 population. Priority will be to communities less than 5,000 population.

Income Limit

Grants will not be made in a city or town with a median household income of more than 90% of the state non-metropolitan median household income. Priority will be given to communities with a median household income below 60% of the state non-metropolitan median household income.

Grant Limits

In no case will the Federal grant amount exceed 75% of the project costs. There are four levels of percentage of grant assistance ranging from 75% down to 15%. Percentage of grant assistance is determined by population and income. Grant assistance to a particular project cannot exceed 50% of the state's allocation. Funds are very limited.

Test for Credit

Applicant must certify and Rural Development must concur that it is unable to finance the proposed project without the grant assistance

Eligible Grant Purposes

Construct, enlarge, extend or otherwise improve essential community facilities including, but not limited to:

- Health services
- Community, social or cultural services and facilities
- Purchase of major equipment which will provide an essential service to rural residents (such as ambulance and fire truck)

Ineligible Grant Purposes

- Pay any annual recurring costs such as purchases and rentals that are generally considered to be operating and maintenance expenses
- Refinance existing indebtedness
- Pay Interest
- Construct or repair electric generating plants, electric transmission lines or gas distribution lines to provide services for commercial sale

Pre-Application

- Standard Form 424-2, Pre-application
- State Intergovernmental Review
- Applicant's certification on other credit
- Supporting documentation
 1. Current financial statements
 2. Audit Organizational documents (if non-profit)
 3. Certificate of Incorporation
 4. Articles of Incorporation
 5. Bylaws
 6. Existing debt instruments
- Project write up and information on the applicant

Purpose

FIRE AND RESCUE LOANS

RD Instruction 1942-C

Provide financing for fire and rescue services.

Eligibility

- Nonprofit corporations
- Public bodies
- Federally recognized Indian tribes

Population Limit

Loans will not be made in or to a city or town with a population in excess of 20,000 population. Priority will be given to communities of less than 5,000 population.

Test for Credit

Applicant must certify, and Rural Development must concur, that it is unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms.

Eligible Loan Purposes

- Construct, enlarge, extend or otherwise improve essential community facilities primarily providing fire or rescue services primarily to rural residents and rural businesses. Rural business would include facilities such as educational and other publicly owned facilities. "Otherwise improve" includes, but is not limited to, the following:
 - Purchase of major equipment, such as fire trucks and ambulances, which will, in themselves, provide an essential service to rural residents
 - Purchase of existing facilities when it is necessary either to improve or to prevent a loss of service
- Pay the following expenses when they are necessary:
 - Reasonable fees and costs (such as legal)
 - Interest
 - Costs of acquiring interest in land and rights
 - Purchasing or renting equipment
 - Initial operating expenses

- Refinancing debts when all of the following exist:
 - Debts being refinanced are secondary part of loan
 - Debts being refinanced were incurred for facility or service being currently financed
 - Arrangements cannot be made with present creditors to extend or modify terms of the existing debts

Ineligible Loan Purposes

- Facilities which are not modest in size, design and cost
- Loan finder's fees

Loan Terms

- Loan will not exceed the useful life of the facility or the equipment being financed
- Loan will not exceed 40 years.

Interest Rates

There are three interest rate levels: poverty, intermediate and market. The type of rate applicable to a project is dependent on the Median Household Income of the service area.

- The poverty rate is appropriate if the median household income of the service area is below the poverty* line or is below 80% of the state nonmetropolitan median household income and the loan is to upgrade existing facilities or construct new facilities required to meet applicable health or sanitary standards
- The intermediate rate applies to loans that do not meet the requirements for the poverty line rate or for which the median



household income in the service area is below the poverty line or not more than 100% of the nonmetropolitan median household income of the state.

- The market rate applies to all loans that do not qualify for the poverty or intermediate rates

Currently, the poverty rate is 4.5%. The market rate is adjusted quarterly based on a bond buyer index. The intermediate rate is midway between the poverty and market rates.

NOTE: For essential community facility loans, the current interest rate will be increased by two percent if the project being financed will involve the use of, or construction on, prime or unique farmland.

*The poverty line amount is updated annually. As of May 1, 2004, the poverty line is \$18,850.

Security

Loans will be secured by the best security position practicable to protect the interest of the Government during the repayment of the loan.

Loans are made to nonprofit corporations secured by a note and real estate deed of trust (if applicable). Assignments are usually taken on accounts, contract rights, general intangibles, equipment and fixtures. A pledge of revenue and a lien on all equipment purchased is required. Public Bodies are secured by bonds.

Feasibility Requirements

All projects financed must be based on a satisfactory source of revenue sufficient to provide for operation and maintenance, reserve and debt payment. The applicant is expected to provide a financial feasibility report: 1) using Form RD 1942-54, Applicant's Feasibility Report, or 2) as part of the preliminary engineering/architectural report using Guide 6 of RD Instruction 1942-A.

Preapplication/Application

No Preapplication is required.

Application will consist of:

- Application, SF-424.1 (Non-Construction) or SF-424.2 (Construction)

- Form RD 1940-20, Request for Environmental Information (Not required for equipment)
- Organizational Documentation
 - Certification of Incorporation
 - Articles of Incorporation with amendments
 - Bylaws with amendments
 - Certificate of Good Standing
- Form RD 1942-54, Applicant's Feasibility Report (Stress Item 8 of the form, five years' past audits, financial statements, or lists of income and expenses for the past five years)
- Map of Service Area and User List
- List of Townships Served
- Form RD 1942-52, Cash Flow Projection
- Applicant's Letter on Other Credit
- Preliminary Architectural Report (If building is involved and is not pre-engineered)
- Current Financial Statement



WATER & WASTE DISPOSAL LOANS AND GRANTS

RUS Instruction 1780

Purpose

Provide financing for water, sanitary sewerage, solid waste disposal and storm wastewater facilities for rural residents.

Eligibility

- Public bodies such as municipalities (cities, towns and villages), counties, and special purpose districts (water districts and sewer districts)
- Nonprofit corporations
- Federally recognized Indian tribes



Population Limit

Loans and/or grants are made to serve rural areas. Priority will be given to communities of less than 5,500 population. Rural areas are any areas not in a city or town with a population in excess of 10,000 inhabitants.

Test for Credit

Applicant must certify, and Rural Development must concur, that it is unable to finance the proposed project from their own resources or through commercial credit at reasonable rates and terms.

Eligible Loan Purposes

- Construct, enlarge, extend or otherwise improve water or waste disposal facilities
- Pay fees necessary for the project development such as legal and engineering
- Interest on loan until facility is self-supporting (up to three years)
- Cost of acquiring land, rights-of-way, permits, etc
- Purchase of necessary equipment
- Initial operating expenses
- Refinancing existing debts in limited circumstances
- Debts being refinanced are secondary part of loan (less than 50%)

- Debts being refinanced were incurred for facility or service being currently financed
- Arrangements cannot be made with present creditors to extend or modify terms of the existing debts

Ineligible Loan Purposes

- Facilities which are not modest in size, design and cost
- Loan or grant finder's fees
- New combined sanitary and storm water sewer facilities
- That portion of a water and/or waste disposal facility normally provided by a business or industrial user

Loan Terms

The loan repayment period shall not exceed the useful life of the facility, State statute or 40 years from the date of the note or bond, whichever is less. Where Water & Waste Disposal grant funds are used in connection with the Water & Waste Disposal loan, the loan will be for the maximum term permitted by this part, State statute, or the useful life of the facility, whichever is less, unless there is an exceptional case where circumstances justify making an Water & Waste Disposal loan for less than the maximum term permitted. In such cases, the reasons must be fully documented.

Interest Rates

There are three interest rate levels: poverty, intermediate and market. The type of rate applicable to a project is dependent on the Median Household Income of the service area.

The poverty rate is appropriate if the median household income of the service area is below the poverty* line or is below 80% of the state nonmetropolitan median household income and the loan is to upgrade existing facilities or construct new facilities required to meet applicable health or sanitary standards.

The intermediate rate applies to loans that do not meet the requirements for the poverty line rate or for which the median household income in the service area is below the poverty line or not more than 100% of the nonmetropolitan median household income of the state

The market rate applies to all loans that do not qualify for the poverty or intermediate rates.

Currently, the poverty rate is 4.5%. The market rate is adjusted quarterly based on a bond buyer index. The intermediate rate is midway between the poverty and market rates.

*The poverty line amount is updated annually. As of May 1, 2004, the poverty line is \$18,850.

Security

Loans will be secured by the best security position practicable to protect the interest of the Government during the repayment of the loan. In Tennessee, water and waste disposal loans to public bodies are normally secured by revenue bonds. In some cases, general obligation bonds can be taken as security if the test for credit requirement can be met. Loans to nonprofit corporations are secured by a note, real estate deed of trust, and lien on revenue.

Grant Eligibility

Grants are considered only after a determination is made on the maximum amount of loan the community can afford and still have reasonable user rates. When those and other available funds are not sufficient to do the project as the community and Rural Development have agreed upon, they can be considered for grants funds.

Applicants will be considered for grant assistance when the debt service portion of the average annual user cost (for users in the service area) exceeds the following percentages of the median household income (MHI):

- 0.5% when the MHI of the service area is below the poverty line or below 80%

(whichever is higher) of the state nonmetropolitan median household income.

- 1% when the MHI of the service area exceeds the 0.5% requirement but is not more than 100% of the state nonmetropolitan median household income.

Grants may not be made in excess of the following percentages (whichever is higher) of the eligible project development costs:

- 75% when the MHI of the service area is below the poverty line or below 80% of the state nonmetropolitan median household income and the project is necessary to alleviate a health or sanitary problem.
- 45% when the MHI of the service area exceeds the 75% requirement but is not more than 100% of the statewide nonmetropolitan median household income.

Applications

- Standard Form 424.2, Application
- Preliminary Engineering Report/Facility Plan with CF Guide 20
- State Intergovernmental Review
- Applicant's Certification on Other Credit
- Latest audit or latest annual statement of income and expenses with balance sheet



SOLID WASTE MANAGEMENT GRANTS

RUS instruction 1775

Purpose

- Reduce/eliminate pollution of water resources
- Improve planning and management of solid waste sites

Eligibility/Priority

- Public bodies and non-profit corporations
- Preapplications received from local governmental-based, jurisdictional organizations will be given priority within the available funds

Eligible Grant Purposes

- Evaluate current landfill conditions to determine threats to water resources
- Provide technical assistance and/or training to enhance operator skills in maintenance and operation of active landfills
- Provide technical assistance and/or training to help communities reduce the solid waste stream
- Provide technical assistance and/or training for operators of landfills which are closed or will be closed in the near future with the development and/or implementation of closure plans, future land use plans, safety and maintenance planning and closure scheduling within permit requirements

Ineligible Grant Purposes

Grant funds may not be used to:

- Recruit applications for Rural Development's water and waste disposal loan and/or any loan and/or grant program
- Duplicate current services, replacement or substitution of support previously provided such as those performed by an

association's consultant in developing a project

- Fund political activities
- Pay for capital assets, the purchase of real estate or vehicles, improve and renovate office space, or repair and maintain privately-owned property
- Pay for construction or operation and maintenance costs
- Pay costs incurred prior to the effective date of grants made under this instruction

Preapplication Deadline

Preapplications, on SF-424.1, can be filed between October 1 and December 31 of each fiscal year.

TECHNICAL ASSISTANCE AND TRAINING GRANTS

RUS Instruction 1775

Purpose

- Identify and evaluate solutions to water and waste disposal problems in rural areas
- Assist applicants in preparing applications for water and waste disposal grants
- Improve operation and maintenance of existing water and waste disposal facilities in rural areas

Eligibility

Entities eligible for Technical Assistance and Training (TAT) grants:

- Private nonprofit organizations that have been granted tax-exempt status by the Internal Revenue Service
- Must have proven ability, background, experience, legal authority and actual capacity to provide technical assistance and/or training on a regional basis

Eligible Grant Purposes

- Identify and evaluate solutions to water problems of associations (group-type organizations) in rural areas relating to:
 - Source
 - Storage
 - Treatment
 - Distribution
- Identify and evaluate solutions to waste problems of associations (group-type organizations) in rural areas relating to:
 - Collection
 - Treatment
 - Disposal
- Assist associations, that have filed a preapplication for assistance, in the preparation of

water and/or waste disposal loan and/or grant application

- Provide training to association personnel that will improve the management, operation and maintenance of water and waste disposal facilities
- Pay expenses associated with providing the technical assistance and/or training

Ineligible Grant Purposes

- Recruiting applications for water and waste disposal loan and/or grant program
- Duplicating current services, replacement or substitution of support previously provided such as those performed by an association's consultant in developing a project
- Funding political activities
- Paying for capital assets, purchase of real estate or vehicles, improve or renovate office space, or repair and maintain privately-owned property
- Paying for construction or operation and maintenance costs
- Paying costs incurred before the effective date of the grant
- Paying for technical assistance which duplicates assistance provided to implement an action plan funded by the Forest Service

Preapplication Deadline

Preapplications, on SF-424.1, can be filed between October 1 and December 31 of each year

DISTANCE LEARNING/TELEMEDICINE

Rural Americans face many challenges – including the need for quality education and healthcare services.

USDA's Distance Learning and Telemedicine (DLT) Loan and Grant Program is designed to help meet these challenges through the use of advanced telecommunications technologies.

These technologies can create economic and quality-of-life opportunities.

Distance learning projects continue to provide funding for computers and internet connections in schools and libraries. The vast array of study options available to rural students through distance learning technologies literally brings the world to their doorstep.

Telemedicine projects are providing new and improved healthcare services beginning with patient diagnosis, through surgical procedures, and post-operative treatment. New advancements are being made in the telepharmaceutical and Telepsychiatry arenas, providing options never before available to many medically underserved, remote rural areas.

The value of these services to rural parents, teachers, doctors and patients is immeasurable. Building on advanced telecommunications platforms, distance learning and telemedicine technologies are not only improving the quality of life in rural areas, but they are also making direct contributions to their economies by introducing the skills needed for a high-tech workforce and promoting sound health care initiatives.

For more details about the DLT Program, including funds available and submission dates, please visit our website:

www.usda.gov/rus/telecom/dlt/dlt.htm

Applications:

- Noncompetitive Application Process
- Accepted Year-Round
- Processed as Received
- No Matching Contribution

- \$50,000 Minimum
- Loan-grant ratio: \$10 loan to \$1 Grant

Eligible Purposes:

- Computer hardware and software
- Audio and video equipment
- Terminal equipment
- Medical or educational equipment
- Links between teachers & students or medical professionals in the same facility
- Site development and alteration of buildings
- Purchasing land
- Purchasing or constructing buildings
- Purchasing vehicles
- Acquiring telecommunications transmission facilities provided no facilities exist

Additional Eligible Purposes for 100% Loans.

- Project operating costs during the first two years (limited)
- Educational broadcasting for distance learning purposes

Loan Term and Interest Rate:

- 10 year maximum maturity
- The interest rate on "Yields on Treasury Securities" at "constant maturity."
- Applicants can access the appropriate rate for a given loan term under the heading "Treasury constant maturities" at the following web site:

<http://www.federalreserve.gov/releases/H15/update>

Phone: 202-720-0413 regarding a DLT Combination Loan-Grant or a 100% Loan.